

MEMORANDUM FOR: DD/L

SUBJECT: Recommendations of the PPA/PRA Study Group

1. At your request the Study Group reviewed the current PPA/PRA and alternative systems for recommendation of the one best suited to the current needs of OL and the Agency.

2. Four systems were reviewed. These were Direct Funding, PPA/PRA, modified PPA/PRA, and Revolving Fund.

a. Direct Funding: The system would encompass direct budgeting and funding of all material procurement regardless of whether direct or stock procurement. Operating components would be assigned budget responsibility for direct procurement requirements; designated offices would be assigned budget responsibility for stock procurement. Precedence for this is found in assignment to OTS and to OC of inventory budgeting responsibility for certain cognizant materials. Direct Funding proposal would extend this principle to encompass all current and future inventories of the Agency.

b. PPA/PRA: The system provides that using components budget for total material needs of the Agency with transfer of funds via conversion of funds to PRA for both direct and stock procurement requirements levied on OL and Type I stations.

c. Modified PPA/PRA: System would provide that using components continue to budget for all needs but transfer of funds through conversion to PRA would apply only for items to be drawn from Agency stocks. Funds for direct procurement would be retained by using component and obligation for procurement action would be charged directly to the individual offices.

d. Revolving Fund: Using components would budget for all property requirements. Obligation for direct procurement would be against the funds of the using component. The inventories of the Agency would be capitalized and items "sold" to using components whose funds would be charged in the same manner as obligations for direct procurement. Proceeds of the sale would be credited to the capitalized stock revolving fund, without regard to annuality of appropriation, from which procurement action for stock acquisitions would be funded.

3. The PPA/PRA system was established almost 20 years ago for the purpose, among others, of enabling budgeting and funding by using components of stock items which could not be identified with customer at the time of procurement and obligation of appropriated funds. This adhered to the principles of program budgeting with the operating component having responsibility for estimating and defending program needs. Maintenance of the PPA/PRA system required establishment of a subsidiary financial control system which, in practice, draws its information base from the FPA system. The system is costly in terms of manpower devoted to the separate controls which do not conform with the normal budgetary and financial control system of the Agency.

see
9/15/77

Not
So!

4. Although established for the purpose of stock funding, the PPA/PRA system encompasses all Agency material procurement requirements levied on the Office of Logistics and Type I installations. Since inception of the system the number of Type I installations has been significantly reduced [redacted]

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[redacted] In its review the Study Group analyzed the stock holdings of the Agency and the obligation experience under PPA during fiscal year 1973 to measure the extent to which PPA/PRA is currently required to fund items held in stock for common use. Our conclusion is that the current scope and extent of common-use inventory requirements is such that conversion to Direct Funding, recommended by the Study Group, would not seriously violate the basic intent of end-user budgeting.

5. As of 30 June 1973 the value of material in Agency stocks (except Saigon which converted to Type II early in FY 1974)

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totalled [redacted] million. Based on the allocation structure, the following profile is drawn:

7. The three major requirements, which the Agency's stock ^{system} support possess individual characteristics:

a. Technical Stock - This pertains to stock maintained to support the requirements of those offices engaged in technical operations--primarily OC, OTS, OEL, Division D, AND OS. Requirements for the greater part of technical items and quantities maintained in the stock system are established by each respective office which has cognizance over the allocations assigned to them. With the exception of OS, each of the offices now has sole budget responsibility (as users, ^{budgeting for} ~~giving~~ PRA) for the material. Thus when a procurement action is initiated for procurement of material for one of these allocations, the identity of the ^{budgeting} ~~maxing~~/component is already known. Under the Direct Funding system all procurement action would be charged to the office for whom the allocation is maintained. It should be noted in this regard that the Navy distinguishes its inventories between items of common use and items of a technical nature. The former is funded under the Navy Stock Fund (Revolving Account). However, technical material is charged to an appropriation account at the time of procurement even though it may be physically held in inventory for later "issue". [Use of the PPA/PRA system to identify customer costs for inventory consumption

is not required since the nature of the item and the office having

cognizance usually identifies the ultimate customer at the time procurement obligations are incurred.

Captive stock only.

b. Contingency Stock - This is the second major requirement to which our stocks respond. By definition, contingency stocks are not held for current needs. Since funds available for stock procurement come only from PRA ^{which is to meet} ~~to meet~~ current requirements, the PPA/PRA system does not respond to the funding requirements for this type of stock. The major portion of contingency stocks are of a paramilitary nature. Even if paramilitary items were currently in use, they are of a unique, dedicated purpose and cannot be considered common to the entire Agency. Since these stocks are not for current use and are unique to one segment of the Agency, Direct Funding of procurement actions for these [?] *based on what* should be most appropriate. Extension of the Direct Funding system to these stocks will require decision as to which component or components of the Agency will be assigned budget responsibility. The few contingency ~~contingency~~ stocks held by OC and OEL should probably be budgeted 25X1 for by these components. Those of a purely paramilitary nature probably should be assigned to the DD/O

c. ^{COMMON STOCK} The third segment represents the stockage requirements

for non-technical material which is commonly used throughout the Agency. The results of the preliminary analysis show that a comparatively small dollar proportion of our stocks and small dollar expenditure of funds meet these requirements. We have requested of OJCS a computer report on Allocation 00 (O/L

unallocated) issue experience during fiscal year 1973 identifying federal class number and operating component. It is anticipated

that this review will identify certain categories of stock which meet unique requirements of a single ^{budgeting} customer (such as OL/LSD

Administrative Stock) which would reduce even further the proportion of stocks held and funds spent for common use. Even without refinement, the amounts for common stock identified in paragraphs 5. and 6. above are less than 10% of the Agency's total.

The Study Group believes that budget responsibility for the ~~mx~~ truly common stocks should be assigned to the Office of Logistics as yet another common support service to the Agency.

See memo dated 12/26

*TOTAL
STK PPA
FY 73
Est \$10 M
COMMON 3 M
30% NOT
10%*

of stock is in contravention with the DCI's expressed interest

in identifying customer costs of services and material support. This is not the case. All items in stock, whether contingency, technical, or common, will continue to be controlled by the FPA (inventory control) which provides identification of customer and cost for all items issued. This information will continue to be available for statistical reporting, review, and support of budget and financial administration of the Direct Funding inventory accounts.

9. Although procurement for stock will continue to be processed through the FPA ^{inventory} records, direct procurement actions will be charged to the funds of the requisitioning component. ^{and property accountability, picked up in accounts with current FPA procedures.}

10. The PPA/PRA system assumes that the dollar budgeted by the using component equals the dollar required for stock procurement. In other words, a budget which limits itself to just use or drawdown requirements provides little or no latitude for changes in inventory levels and items. This concept may be acceptable for stocks of non-technical, common use items but it is not valid for technical or contingency stock purposes. This has already been partially recognized by the Agency which has adopted a policy for inventory budgeting for OTS cognizant and agent communications material. The current and ~~ex~~ forecast economic situation probably offers the best justification for adoption of inventory budgeting for common stock. Anticipation of shortages or increasingly long lead time may require inventory managers, in any one year, to procure at a rate which exceeds normal annual usage. A recent example was sizeable procurement by the Agency of various paper products in anticipation of severe shortages. One which may be with us very shortly are petroleum-based products. (The Study Group believes that extension of the inventory budget policy to the remaining technical stocks, to all contingency stocks, and to all common stocks appears warranted at this time.)

It provides for changes in items + levels - it's the total. That is restrictive. Believe this will hold post.

11. Other practical reasons dictate a simplification in our approach to budgeting and funding of inventory. Some of these are:

a. The DCI during the course of reviewing the FY 1974/1975 Program raised some questions on the PPA/PRA system and directed OPPB to make a "study of these cross-Directorate problems". (Ref: Memo for D/L fr C/PS/DDM&S dtd 5 Sept 1973 subj: Follow-on Action to FY 1975 Program Review.) Additionally both DD/O and DD/S&T ^{recently} have/raised specific substantive questions. We believe the implied criticisms of the system will be met by the proposal for Direct Funding.

b. In face of continuing reductions in manpower and resources, the Agency must find more economical and efficient means for administration and management. The PPA/PRA system requires duplication (to a great extent) of budgetary and financial controls. ^{OL} Both the ~~EXE~~/and the ~~xxxxxx~~ ^{of operating} ~~the same~~ components in effect are managing the same money for ~~material~~ ^{the same} material--one as funds and the other as PRA. Direct procurement, which accounted for over two-thirds of our procurement ^{billions} last year, had to be "washed" through the FPA system. Although we have not quantified the relative workload, we must assume that there is some correlation ~~with the amount of work effort~~ ^{expended by} ~~involved.~~ ^{Supply Division, stock control.} (and O4B+F

agree!

why?

c. The PPA/PRA system is a hybrid system utilizing a base of information drawn from both the Logistics systems and the Finance systems. In the current efforts toward developing more sophisticated computer systems, both OL and OF are faced with the problem of accommodating the idiosyncracies required by PPA/PRA. Direct Funding for all procurement would enable utilization of the Agency's standard budgetary, financial, and logistics procedures and systems.

d. Other advantages are outlined in Attachment D "Direct Funding".

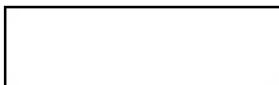
12. The question logically arises as to whether adoption of Direct Funding for all procurement would tend to vitiate the authorities and responsibilities of the D/L for the logistics system. We believe that the proposal contains the potential for actually strengthening this role. For example, the Direct Funding proposal would require development of a comprehensive inventory budget. For the first time, the D/L would have available a statement of anticipated levels of stocks to be maintained by the logistics system. The value to logistics and to supply managers of such planning statements is obvious. We would also anticipate that in developing an implementation plan for Direct Funding cognizance will be taken of the needs of D/L for planning (production) information on procurement/activities. Although current procedures for Procurement Plans have been partially effective, the full value cannot be realized until we have developed a good reporting system against stated plans. We believe the potential for achieving this ~~xxxxxxxxxxxxxxxxxxxx~~ can best be achieved through tie-in with the Agency's system for budgetary control of material.

13 12. The recommendation for ~~Direct~~ Direct Funding contemplates a significant change which will impact on all components of the Agency. Therefore, it is suggested that ample time be allowed thoroughly to work out implementation policy decisions, responsibilities, and procedures. It is particularly imperative at the present time since proposed change in property funding is coinciding with the significant changes occurring in both

supply and procurement organizations and procedures. An implementation plan for conversion to Direct Funding will require resolution of many problems inherent not only in normal change of procedures within a statis situation but also in cognizance of current conditions where the impact of change has not yet been fully assessed. We suggest, therefore, that implementation be targeted for FY 1976.

14. The Study Group recommends that, if the Direct Funding proposal meets with your approval, a letter be prepared to the Office of the Comptroller and to the Office of Finance outlining generally the proposal for Direct Funding. The letter should request the concurrence of the two offices in principle for the purpose of developing a plan for implementation and for the purpose of requesting these offices to appoint an officer to work with a group from OL in studying these problems and coming up with recommended action ~~xx~~ and procedures.

15. ~~10~~. The Study Group is prepared to meet with you and discuss the proposals at your convenience.



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PMS _____

SD _____

PPS _____

BF _____

DESCRIPTION

1. The system for Direct Funding distinguishes between the two basic types of Agency material requirements--those for immediate consumption (direct procurement) and those for inventory requirements (stock procurement). Budget responsibility would be assigned to each operating component for its material needs which are met by direct procurement. Budget responsibility for inventory material (stock procurement) would be assigned to designated offices. This, in effect, would be extension to all Agency stocks of the inventory budgeting concept adopted recently for OTS cognizant and agent communications material.

2. The Agency's budget presently does not recognize inventory requirements (other than the two exceptions noted above). Appropriation authorities are predicated on the customer's requirements for drawdown of stock. Thus the only funds earmarked for investment in the inventory are those budgeted for consumption by operating components during any one year. A comparison of the budget sequence for stock procurement under the PPA/PRA and the Direct Funding system clearly identifies the inherent incompatibility.

good point

<u>Budget Sequence</u>	<u>Direct Funding</u>		<u>PPA/PRA</u>	
	<u>Purpose</u>	<u>Action Office</u>	<u>Purpose</u>	<u>Action Office</u>
Program definition and scope (Requirements)	Inventory	Inventory Manager	Use	Consumer
Program estimate (Budget)	"	"	"	"
Allotment (Procurement Authority)	"	"	Inventory	Inventory Manager
Control of Funds (Obligations)	"	"	"	"

3. To bridge the gap between the consumer and the inventory manager responsibilities, the Agency adopted the PPA/PRA system which requires extraordinary budgetary management controls. Therefore, to the budget sequence listed above must be added two additional lines.

PRA (Requisitioning Authority)	- Not applicable	Use	Consumer
Control of authority (Encumbrances)	"	"	"

4. The Direct Funding system for direct procurement will not be a fundamental change from the present system insofar as the operating components are concerned. They will continue to budget for these requirements as they have in the past. However, when a procurement action is requested, the operating component will record this as an obligation against the funds allotment and not to PRA. Requestions will be forwarded to OL and material will be procured as at present. The OL will not process receipt of the material through the inventory stocks as a quasi-stock accessions, and initial property accountability will be picked up by the requisitioning component in accordance with current FPA In-use accountability procedures. Precedence exists for customer allotment charge for direct procurement of material in the examples of Type II installations, SPU, G accounts, and imprest funds.

5. The Direct Funding system for stock procurement is a significant change in concept but is not revolutionary in actual practice.

a. By definition inventories exist only at installations under Type I property accountability (including [redacted])

25X1 Conversion of Saigon to Type II and deactivation of [redacted]

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Locations
is of
little
significance
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b. Analysis of our stock profile as of 30 June 1973, based on the allocation structure which is a fairly good categorization of the requirements to which the inventory system now responds, shows that about 47% of our stocks meet technical requirements of only a / ^{few offices} (e.g. OC, OTS, Division D, OS, and OEL). These offices now have, with a few exceptions, total budget responsibility for this material as users. The Direct Funding system, therefore, would have little practical impact with extension of inventory budgeting to/technical ^{all} stocks.

c. About 45% of our stocks meet contingency requirements identified with DD/O paramilitary activities and with OC and OEL strategic reserves. The theory of PPA/PRA, which assumes drawdown requirements ^{to} equal accession or procurement requirements during any

d. PPA/PRA is appropriate for common-use stock and can be an effective funding device for this purpose. However, maintenance of the PPA/PRA system is costly in terms of manpower required over and above normal budgetary administration. With this in mind, an analysis of our PPA obligation experience (excluding reimbursable procurement) for fiscal year 1973 was made to quantify the extent to which PPA/PRA is effective.

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Current efforts in OL to make increasing use of Blanket Purchase Agreements and Requirements Contracts will probably reduce this percentage even more and leads to the conclusion that the volume and dollar amount do not justify retention of the PPA/PRA system.

In concert with other items of common budget responsibility assigned to the Office of Logistics, assignment of inventory budgeting for common use stocks ~~can be assigned~~ to the Office of Logistics which ^{has} also ~~would have~~ responsibility for inventory management of these items. ~~100000~~ ^{BE LOGICAL}

ADVANTAGES

1. Direct Funding will recognize inventory requirements as a legitimate item in the Agency's Budget. Accommodation of the funding differences between actual requirements versus drawdown needs can be provided for through the normal budget process without the need to resort to unplanned reprogramming.
2. The system will consolidate budgetary responsibility and authority under one individual. The present system creates a dichotomy. The procurement allottee (D/L) now has the responsibility for financial administration of inventory procurement within the amount of funds the users have budgeted for drawdowns from stock.
3. Direct Funding will result in more accurate budgetary and ^{appropriation} financial information in the/accounts of the Agency. Although the appropriation supports obligation of funds, the Agency budget has substituted statistics for its base. On many occasions this has resulted in inaccurate distribution of program obligations.
4. It will enable better utilization of funds appropriated to the Agency. Fragmentation of appropriation authorities tends to create a higher percentage of unobligated balances at the end of the year. Elimination of separate fund and PRA authorities to operating components will tend to result in better use of funds. Historically there has also remained a significant unobligated balance in the PPA. *How?*
5. Direct Funding will utilize the Agency's standard budgetary and financial accounting procedures and reports for property funding. The PRA system is unique and does not conform with the standard system. The system now in use is sub-standard requiring manual ledger record keeping and reconciliation which do not permit utilization of the computers which can automate many steps in the accounting process and which can produce detailed reports in the sort and mix required by budget managers.
6. Direct Funding will reduce the total work effort now expended in maintenance of the PPA/PRA system. As mentioned above, maintenance of manual records on PRA encumbrances and balances will no longer be required of the operating components. All direct procurement actions must now be processed by the Supply Division as if they were accessions to the inventory--washed through the FPA

stock accounts. This will no longer be required. PPA/PRA in effect requires duplicate management effort in financial administration of funds for procurement. The head of the operating component must give the same financial management treatment to PRA as the D/L must give to the PPA.

7. The system will enable better control and utilization of material. Presently offices are reluctant to return items to stock since they have to "pay" a second time if they need the item again. Since the budget would be charged only once, at the time of procurement, neither use nor reuse would create an appropriation charge. The proposal would encourage operating components to return unneeded property which would be available for reissue to other customers or the same customer.

8. Inventory budget will give the D/L information on the extent to which he will be required to support inventory holdings of the Agency during the planning stages.

DISADVANTAGES

1. The Direct Funding system will require a higher degree of planning and control which may inhibit the "flexibility" enjoyed in the past. The "program" budget does not place much emphasis on the nature or object of the funds requirements. Therefore inaccurate estimates or changing requirements for material support could be accommodated rather easily and without the need for justification of programming action, ^{2.3.1.} E.G. an operating component could change its mix between funds and PRA and will. Inventory managers could add or delete items in the stock system without reference to availability of appropriated funds.

2. The PPA/PRA system enables charging end users for stock issues. Although the current budget policy of the Agency already makes exception to the principle (e.g. OL's Administrative Stock, OTS cognizant), Direct Funding will require some further compromise. Although end-user information will continue to be available in most cases, it will be for statistical rather than budgetary purposes.

3. The Direct Funding of common use stock will require development and maintenance of effective coordination between requirements and accessions plans to assure availability of material in kinds and quantities needed.

IMPLEMENTATION

Because of the significant change in policy and procedure which Direct Funding contemplates, which coincides with changes in the supply and procurement organizations and systems, sufficient time should be allowed to develop an implementation plan. Some of the problems and questions which must be addressed are:

1. Develop a policy criteria for stockage of items for the guidance of ~~inventory~~ components assigned responsibility for inventory budgeting.
2. Develop a policy criteria for direct procurement of material for the guidance of all operating components who will be charged with responsibility for budgeting for this type of material.
3. Apportion the Agency's inventory and assign to ^{designated} ~~inventory~~ offices inventory budget responsibility.
4. Refine the allocation structure of the inventory for correlation with inventory budget responsibilities.
5. Develop a standard formula and procedure for inventory budgeting and control. This should take ^{EMPLOY A SIZE} ~~cognizance~~ of the role of D/L as ^{AGENCY} ~~advisor to the D/L~~ on inventories.
6. Define the role of the office assigned inventory budgeting responsibility with the Supply Division commodity managers. For example, could the commodity manager play a role comparable to the procurement officer of a decentralized procurement team?
7. Where would obligation control over inventory allotments be recorded--i.e. OL/BF or the designated office.
8. What types of financial reports, drawn from ~~both~~ the appropriation, general ledger, and FPA systems, are required, when, and by whom?
9. Since one office will be responsible for budgeting and providing material in stock which may be drawn down by another office, what controls are needed to assure that they do not draw more than their fair share?
10. How will offices budgeting for direct procurement and for inventory know what items they are responsible for? Will this require publication by OL of material catalogs?

MODIFIED PPA/PRA

12/12

1. The PPA/PRA system applies to all material requirements levied on the Office of Logistics or Type I installations. This includes material carried in the inventories and material which must be acquired by direct procurement. The modified PPA/PRA system would restrict use of PPA/PRA to items carried in the Agency's inventory. Requirements for material needs satisfied by direct procurement would be handled as direct allotment charges against the requisitioning component and neither PPA nor PRA would be used.

2. The FPA system of the Agency was developed in the mid 1950's in compliance with legal requirements for monetary property accounting records. The FPA system (Type I) enables identification of cost and customer (FAN) for property issued from stock. This capability was seized upon by the budget people as a means to solving the old budget problem of relating obligation authority for centrally purchased, common use items to end-user program budgeting. Initially all Agency supplies and equipment acquisition, use, and disposal actions were processed through FPA accounts under procedures which enabled maintenance of a complete audit trail on property accountability from delivery of an item to final disposition. Time, however, has seen a gradual erosion of this initial application so that today we are operating under a fragmented system.

a. The major break in the integrated PPA/PRA system occurred in July 1970 when amendment of Agency policy provided that obligations for local procurement of material by Type II or Type III stations were to be charged to funds allotment of the operating components rather than being charged to the local PPA.

b. In recent years continued redesignation of stations from Type I to Type II and the close-down of [] has reduced the number of Type I stations []

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3. The Agency is facing severe manpower restrictions and must look to its basic procedures to assure that they respond to current day needs and require minimum work efforts. One area

in the PPA/PRA system appears to warrant examination. That is, the current requirement to process through the PPA/PRA, and concurrently the FPA system, ~~of procurement~~ actions for direct procurement of material at Type I (including ☐ locations. It would appear that this is a vestigial remnant of the initial, comprehensive system.

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4. Looking forward, personnel reductions and budgeting constraints dictate the necessity of streamlining our FPA system to the maximum extent possible. Changes in management concepts and mode of operations void heretofore valid arguments for processing all transactions through the FPA system. Proposed changes in our procurement process, i.e., Blanket Purchase Agreements, requirements contracting, self-help program, direct shipment by DSA and GSA to our overseas installations, direct delivery by vendors to overt CIA buildings in the Headquarters area, etc., eliminate the need for this information for supply management purposes.

ADVANTAGES

1. Reduce the scope of a procedure which is complicated, complex, and understood by very few people to its essential coverage--i.e. inventory items.

2. Eliminate a significant amount of paperwork created by the necessity for processing direct material procurement through the PPA/PRA and the FPA systems.

3. Relieve the Office of Logistics of a budgetary and financial responsibility for direct procurement actions/over which it, in practice, has no control.

4. Facilitate current efforts of OL toward simplification of procurement activities (i.e. BPA, requirements contracts) which are now ^{being} ~~being~~ inhibited to some degree by the necessity for processing actions through the FPA system.

DISADVANTAGES

1. Loss to OL of centralized statistical information on procurement effected through OL which is now available in the PPA records.

2. Loss of flexibility in adding or deleting items in the inventory. The customer now transfers allotment authority for all procurement requirements ~~based on OL~~ ^{based on OL} ~~which~~ ^{which} ~~is now~~ ^{is now} ~~available~~ ^{available} ~~in the~~ ^{in the} ~~PPA records.~~ ^{PPA records.}

Hand
is to delete
not add

office to add or delete items in the inventory in response to current requirements. If the customer were to buy PRA only for items he knows are in the OL inventories, limited funds would inhibit OL in making changes and in taking advantages of pricing or delivery time opportunities.

3. Since PPA is the primary source of funds for inventory accessions, we would have to rely on the accuracy of operating component estimates for management of stock. Since operating components seldom have available, except on a relatively short term basis, information on the details of material requirements, PPA would be at the mercy of "guesstimates".

Good point

4. There would be increased opportunity for processing errors. Since requisitions can be submitted with line item requirements which can be met from stock and which require direct procurement action, extreme care would be required on the part of the operating component and on the part of the OL to accord the proper treatment to the individual line items.

PPA/PRA

1. The PPA/PRA is a quasi-revolving fund for the procurement of material held in the Agency inventory. Unlike a true revolving fund, the account is funded at the start of a fiscal year in an amount totalling combined estimates of all operating component of material which will be requisitioned during the year. Appropriated funds are withdrawn from the operating components and allotted to OL as PPA. Operating components in turn receive PRA or a credit against the OL. The transfer of appropriated authority provides the capital needed by inventory managers to procure items for later issue. Use of information on the status of PRA controls the amount of material withdrawn from the inventory system by each office and enables distribution of obligations incurred for inventory by end user.

2. Each operating component of the Agency is responsible for budget submission and justification of the total material requirements in support of its programs. OL and other cognizant stock managers (either the exception of OTS cognizant and OC agent communications material) do not program nor budget funds for property procurement except for those supplies and equipments needed to support these offices as using components. The role of OL is limited, for the most part, to the management and control of those funds allotted by OPPB for Agency-wide property procurement.

3. Although the budgeting cycle requires the operating components to estimate use requirements almost two years in advance, OL does not become involved in those requirements until operating allowances are approved at the beginning of each fiscal year. Upon receipt of their operating allowances, operating components estimate the types and value of material which they expect to requisition through OL and from its depots whether the item is in inventory or whether the item requires direct procurement. The amount of PRA issued might or might not equate to the component's total material budget since most overseas stations locally procure many of their material requirements in which case those expenditures are handled as direct charges to funds and do not require PRA.

4. Concurrently with the issuance of PRA to the operating components, OPPB allots an equal amount to OL in the form of PPA. This allotment is supported by a listing which shows the amount of funds contributed by each operating component and the distribution of that amount among the various sub-object classes (presently four--ordnance, communications, ADP, and general roughly related to the material categories).

5. Upon receipt of the PPA, OL simultaneously assumes a liability to honor all customer requisitions which have been approved and which have been certified as to the availability of PRA. This liability continues whether the material requested is available within the Agency supply system or whether action is required to obtain it from other sources.

6. The PPA provides obligation authority for procurement from commercial or Government sources of:

a. Items requisitioned which are not carried as stock in the Agency supply system. This type of action is identified as "direct procurement".

b. Material to periodically replenish inventory levels of stock items which have been reduced as the result of issues to requisitioners. This type of action is identified as "stock procurement".

c. In addition to the procurement of end items, the PPA is also used for the contract repair, modification, or fabrication of stock items when economy or practicality dictates.

7. Although PPA/PRA was designed to overcome the problems of capitalizing inventory procurement, the Agency includes within the PPA/PRA system all procurement requirements levied on the Office of Logistics or Type I stations. Funds for procurement at Type I stations under the control of other operating components are suballotted directly by OPPB to those installations without consultation with OL. The balance of funds available for property procurement are then suballotted to OL.

8. A major problem facing the D/L is decision on suballocation of the PPA between amounts reserved to meet obligations resulting from direct procurement requirements and amounts to be suballotted to Chief, Supply Division, for stock replenishment purposes. The role of the D/L in these two instances differs. The first, direct

procurement, is one of reaction. In this case the operating components dictate the timing, items, and amounts of procurement actions charged to the PPA. The second, stock procurement, is one of action. As part of its responsibility for maintenance of an inventory of common use and/or Agency unique material items, the O/L can determine timing, items, and amounts to be procured. Although the ^{later} is theoretically/^{totally} within the purview of O/L, in practice the stock funding requirements of OTS and OC have not been subject to the degree of control/^{which is} exercised over stock procurement of items under the cognizant of OL.

9. At the beginning of each quarter, the Chief, Supply Division, submits for approval by D/L a stock procurement schedule_{25X1} outlining, in financial statistics, requirements for procurement action. This schedule reflects by each stock management center _{25X1} ☐ BSB, OC/MSB, OTS, and ☐ amounts obligated in each of the past four quarters and amounts required for each of the next four quarters.

10. The stock procurement schedule is the basis for approval of the succeeding quarterly suballotment to the Chief, Supply Division, who in turn suballots to each stock management center. Among considerations in the review of the stock procurement schedule by the D/L is the estimated availability of funds within the PPA to meet estimated stock requirements and yet to retain an amount of funds sufficient to meet direct procurement requirements.

11. Although PRA is the primary source of funds for PPA, there are additional sources available to OPPB for this purpose. Among these are the proceeds derived from the sale of material to other U.S. Government agencies and foreign governments or instrumentalities (accommodation procurement), proceeds from property disposal sales (e.g. motor vehicles). These funds become available to the appropriation for replacement of like or similar items. PPA funds can also be made available, without being immediately supported by PRA, when an increase in inventory levels or a new item is introduced _{25X1} which will be drawn down in subsequent fiscal years. In the past ☐ has frequently funded PPA in this way. This year the inventory budgets for OTS cognizant and OC Agent Communications equipment will provide the same opportunity.

12. Occasionally items are withdrawn from stock which will not be replaced. Operating components receive this authority in the form of unfunded PRA.

13. The funds in the PPA are made available from the Agency's appropriation and are subject to the limitations of that appropriation. Unlike the stock funds of the military establishments, PPA unobligated balances are not available for obligation in subsequent fiscal years..

ADVANTAGES

1. The material budget is controlled internally by the Agency and is not subject to as close Congressional review and scrutiny as are the stock funds of the military establishments.

2. In practice the Agency's management of the inventory has remained at the Office level (OL, OC, OTS and other cognizant offices) and has not been subject to detailed review by OPPB.

3. There is perhaps more flexibility in managing the PPA than if it were operated under a stock fund concept.

4. Provides a cost accounting system through the capability of the FPA system to identify end user customer and costs for items issued.

DISADVANTAGES

1. User property budgets are not prepared in the detail necessary for good property and funds management.

2. Detailed data, when they are received, is on a relatively short-range basis.

3. Detailed recordkeeping, frequently duplicative, required:

a. PRA records in using components

b. PPA records in OL, OF, and OPPB

c. Supporting documentation in user component, OL, OF, and OPPB

4. With few exceptions, every property transaction must process through the PPA/PRA, and therefore the FPA, systems. Consequently a mass ^{of} paperwork and attendant processing costs are created which often are not justified by the dollar value of the transaction.

5. Necessity of the operating component to estimate a breakout between requirements through the logistics system (PPA) and requirements through local procurement. Absence of sufficiently detailed material

requirements frequently results in poor estimates. This in turn impacts on management by D/L of PPA funds.

6. Necessity for D/L to break out PPA between stock and direct and to maintain separate records on each.

7. Necessity to allocate stock PPA among OC, OTS, LSD, and Supply Division components. Again in absence of good information on material needs.

8. Inconsistencies in the PRA system in that not all costs of property, in its strict definition, are charged to PRA. This not only creates problems in management of PPA but also results in production of statistical information which is not completely accurate.

#2
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1. Revolving funds, also referred to as industrial funds or capital funds, are created to provide capital for the performance of services or the production of goods. They are called revolving funds because they are self-sustaining in nature. That is, the initial capital of the fund is disbursed for expenses in the acquisition of assets, reimbursement secured from other funds covering the sale of those assets, and the cycle is continually repeated. The main advantage of such funds is the visibility they give management into the true costs of the support or service being provided and the increased efficiency which normally results thereby.

2. Since the early 1950's revolving funds have been used extensively by the Department of Defense (DoD) and include such major activities as shipyards, aircraft rework facilities, ordnance plants, public works centers, research activities, and stock funds employing thousands of people and engaging in millions of dollars of business annually. Experience with these funds has been mixed, but generally they have been found to be most successful for large, commercial or industrial type of operations which provide the same type of support to a number of common users.

3. In order for the Office of Logistics (OL) to operate its supply system as a revolving fund it would first be necessary to obtain approval, probably Congressional approval, to establish such a fund. All existing inventories of supplies and equipment included in the supply system would then be given a dollar valuation (capitalized) and additional cash (non-annual appropriation) for working capital would have to be provided. The managers of the fund would then buy stocks with their working capital according to estimates of future needs. As these stocks are sold to consumers, who charge their appropriated operating monies, inventories are converted into cash which can be used to purchase new supplies. Ideally, the price of the materiel sold includes not only the direct cost of the materiel but also salaries, warehouse costs, depreciation, the cost of introducing new inventory, and other overhead costs.

Not So

4. If a stock fund was established as outlined above, it would indeed provide greater insight into the total cost of the support being provided and presumably this greater insight would provide the opportunity for securing greater efficiency. However, such a fund would also have the following disadvantages:

a. A large number of technical (limited use) and contingency items currently held in our supply system would have to be excluded from the revolving fund because the inclusion of these low turnover items would significantly increase fund overhead costs. Moreover, since these items would still be required, a separate supply mechanism would have to be set up to handle them.

b. Since most revolving funds involve considerable Congressional participation (approval of capital, increases, etc.) the fund could be misused as a mechanism for the external control or limiting of Agency operations.

c. Because of the small size of our supply system and the extensive bookkeeping which would be required to include all overhead costs in the price of the materiel, we would probably charge customers only direct materiel costs with perhaps a small markup to cover obsolescence. If we did this, we would not have any more cost visibility than we do today since the present PPA/PRA system does just that.

d. By establishing a stock fund, we would lose considerable flexibility since any major shift in our materiel requirements could result in either the necessity to return to Congress for additional working capital or an inability to respond to operational requirements. Either prospect is unacceptable.

5. Summarizing then, the establishment of a stock fund would result in disadvantages far outweighing any advantages which would result.

DRAFT

Approved For Release 2003/05/28 : CIA-RDP93-00229R000100060016-2

18 December 1973

MEMORANDUM FOR THE RECORD

SUBJECT: Review of Draft Memorandum for DD/L Presenting Recommendations of the PPA/PRA Study Group

1. This very preliminary review of subject accepts without reservation that the intent of the study group is to identify (a) a revision of existing property controls or (b) a new concept of property control best suited to the current needs of OL and the Agency. Use of the phrase "current needs" recognizes the current thrust of reduction in man-power, the non-availability of funds to maintain strategic world-wide Depot inventories and the continuing requirement to implement sound and auditable property controls in terms of both property acquisitions/disposal and simplification of financial procedures now required to sustain the financial property accounting system in its present procedural format. This restatement of the objective is made to support a presumption that all parties are concerned with identifying the best system, rather than the best system other than FPA.

2. In a meeting of 13 December, which included representatives of the Office of Director of Logistics, OL/Budget and Finance and Supply Division, it was agreed that Supply Division would request from OJCS statistical data which might refine the identification of line items in terms of working management cognizance, a statistic used in support of

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subject recommendation. While it is the evaluation of Supply Division representatives that Supply Division provide^s the daily management effort required to support a significant portion of those items identified as "technical stock" and "contingency stock", verification of this opinion will depend upon receipt of computer output requested but not yet available. It is believed, however, that the comments in the following paragraphs may be considered relevant regardless of any statistical refinement.

3. It is agreed that the present Headquarters application of Financial Property Accounting (Type I) to every property transaction and related financial transaction is pragmatic, exemplified by the philosophy that one dollar PPA equals one dollar PRA. For reasons well defined in subject study and supporting systems analyses, it is obvious that this dollar for dollar concept requires development of such mechanisms as "unfunded PRA", "inventory PRA" and inclusions of transaction codes which will allow issue of excess property at no-cost to PRA. It is believed that this rigidity of application of the FPA system, rather than exploitation of its potential flexibility, is the factor which prompts evaluation of the FPA system as unique, understood by few and the source of masses of paper work and attendant processing costs.

4. Departing from the specific subject of the Type I FPA system, the individual analyses of the four systems reviewed (Direct Funding, PPA/PRA (FPA), Modified PPA/PRA (Modified FPA) and Revolving Funds indicates that each system can provide some separate and distinct advantages as well as disadvantages.

a. Use of a Revolving Fund would enable operating officials to measure the cost of a specific program or operation but exception would be required to provide for contingency stock piles, plus the fact that initial Congressional approval and continued Congressional review might hamper operational expediency.

b. Modified PPA/PRA would decrease the extent to which funds are converted to PRA but would require development of separate OL and OF procedures to control direct procurement funds.

c. PPA/PRA, in its present format, provides exact but sometimes meaningless reconciliation of both property and dollars, with the same benefit (measurement of cost) provided by the Revolving Fund system.

d. Direct Funding would define OL as a technically cognizant office with the same degree of budget and property management responsibility as each of the other presently defined technically cognizant office, which now include OC, OTS and FID Staff D (this identification of technically cognizant office recognizes only those which receive PPA funded allotments for purposes of stock and direct acquisition of property). Here, an item not cited by subject recommendation is offered as a disadvantage--the budgeting and property management expertise now concentrated in OL would, of necessity, be fragmented to provide an equal level of professionalism in each of the directorates mentioned.

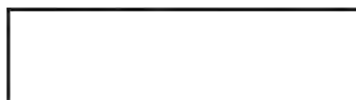
5. The stated objective requires reduction in man-power assets, need to streamline property and financial controls to an irreducible minimum and obviously considers that any system conversion to reach this

objective must be accomplished with the least possible investment of dollars required for conversion. All concerned are aware of the man-years and dollars which have been applied to the development by OJCS of the GIM II ADP program now in initial stages of implementation by OL. It is believed that complete departure from the present FPA system would make only a very finite part of this investment salvageable.

6. The recommendation for implementation of a direct funding system suggests a target date of FY-76, recognizes the need to develop criteria for stockage of property, direct procurement, apportionment of the present Agency inventory, refinement of the allocation structure, inventory budgeting and control policy and numerous other significant techniques. The development and application of these same guidelines would contribute equally to refining and exploiting the true flexibility of the Financial Property Accounting concept. Recognizing only what has been done with the Type I FPA system as implemented manually at field stations, it is believed that the combined experience of OL and OF personnel can provide in automated format, the advantages which are being sought. This would include by-passing the FPA system for the multitude of transactions which now create the masses of paper work and maintenance subsidiary of manual records. This would retain the old but still applicable constitutional position that calls for selective application of checks and balances to matters of significance.

7. In progressing to the present level of providing operational Agency support, every mechanism required to streamline the FPA system has already been devised and is now being used to meet selective, compartmented requirements. All that is really necessary is put these mechanisms "under one roof" and apply them to the total system as required. The necessary manpower saving can be achieved in this manner without going through two years in designing a new system and without totally dismantling the present GIM II system.

8. These comments are based on the strong conviction that the Agency property system is relatively small; that it can be centrally managed; that the result of sound budget projection and allocation of resources is of equal benefit to any property system, and that fragmentation of property and financial management leads to duplication of effort, conflicting interpretations of policy and an end product which must be looked upon as incohesive and lacking in consistency. Definitive proposals to support this conviction can be developed for consideration if time permits.



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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

PPA/PRA Study Group - Proposal for Direct Funding of Material Procurement

FROM:

EXTENSION

NO.

OL/EO/BF

DATE

13 November 1973

TO: (Officer designation, room number, and building)

DATE

OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

RECEIVED

FORWARDED

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For review and discussion at
next meeting of PPA/PRA Study
Group.

HAV

cc: PMS
PPS
SD

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QUESTION	ANSWER	COMMENT																
1. What is the proposal?	Adoption of a policy for direct budgeting and funding of all personal property acquisitions and elimination of the PPA/PRA system.	The PPA/PRA system was established to enable indirect budgeting by the user for centrally purchased and controlled stock. User, who is not required to distinguish between direct and stock procurement, estimates and transfers appropriation authority (PRA) to procurement allottee (PPA) who meets his stock requirements within the amount made available.																
2. How does the proposal differ from the current system?	Proposal recognizes the financial needs of the inventory manager and would consolidate appropriation authorities and responsibilities under single direction.	User requirements would no longer dictate amount of funds available for inventory investment but instead would become only one factor for consideration of inventory needs. The Agency recently recognized in its budget policy inventory requirements for OTS and agent communications material. Proposal would extend this principle to all inventories held by the Agency.																
3. Would adoption of the proposal mean a significant change in the basic principles for PPA/PRA?	Not to any great extent.	The major portion of items now procured under PPA can be identified by user at time of procurement. Management's interest in accumulating costs of common stock furnished to users will be ensured through continued availability of information on stock issues from the PPA Type I accounts. However, this would be used as statistical information supporting inventory budgets.																
4. To what extent is PPA/PRA used to acquire centrally-purchased and controlled stocks?	Although the present financial accounting structure does not produce precise information on this point, an analysis of FY 1973 experience indicates only a small portion of PPA is used for this purpose.	<table><tr><th>Total</th><th>Customer</th><th>Centrally</th><th>%</th></tr><tr><td></td><td>Initiated</td><td>Procure.</td><td></td></tr><tr><td>Total OL PPA</td><td></td><td></td><td></td></tr><tr><td>Direct</td><td></td><td></td><td></td></tr></table>	Total	Customer	Centrally	%		Initiated	Procure.		Total OL PPA				Direct			
Total	Customer	Centrally	%															
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QUESTION	ANSWER	COMMENT
5. What does the future hold for centrally-procured and controlled stocks?	Less and less centrally-procured and controlled stocks will be required by the Agency. The change in the operational profile will result in reduction of common operational and support requirements and emphasis on specialized equipment. Coupled with this are the current efforts to streamline procurement methods.	Conversion of Saigon to Type II and deactivation of the [redacted] will leave only [redacted] under the Type I system (which by definition is Agency inventory). Number of items in stock will go down resulting from introduction of Blanket Purchase Agreements and Requirements contracts. Possibly some line items may be eliminated as the result of the station "self help" program.
6. Why is this proposal now appropriate for consideration?	There are two primary reasons. The Agency is seeking more economical and efficient ways of managing its resources in face of reduced levels of manpower and money, and the operational profile of the Agency is changing.	The PPA/PRA system requires duplication of manpower in management of funds and in record keeping (OL in managing and controlling PPA, operating components in managing and controlling PRA). Direct procurement under PPA system demands heavy support from the PPA system through which direct procurement actions are "washed". The changing operational profile, referred to above, portends significantly less massive general material support requirements.
7. Has any interest been shown by higher authority in changing the system?	Yes. Mr. Colby raised some questions on the PRA system during the course of the FY 1974/ FY 1975 Program Review. In recent months both DD/O and DD/S&T have raised specific substantive questions.	Ref: Memo for D/L fr C/PS,DDM&S dtd 5 Sept 1973 subj: Follow-On Action to FY 1975 Program Review. (Extract attached) "These questions involve the present PRA system . . . OPFB will undertake a study of these cross-Directorate problems."
8. How would the proposed system work for direct procurement?	There would be no fundamental change. Operating components would continue to budget for these requirements as they have in the past. However, instead of PPA/PRA the funds of the operating components would be charged directly for procurement action.	The operating component would record the requisition as an obligation. OF would record the expenditure against the customer FAN. OL procurement allotment funds would not be charged. [redacted] would not "wash" the transaction through the PPA system. Accountability for non-expendable property items would be acknowledged under the Type II procedures. Precedence exists for direct charge. Examples are SPU, "G" accounts, and imprest funds.

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QUESTION	ANSWER	COMMENT
9. How would the system work for stock procurement?	Responsibility for budget estimates, preparation and execution of all stock procurement will be vested in designated offices.	The component charged with budgetary responsibility will record the obligation for stock procurement against the stock account. The present system for payment of claims and recording in the accounts of the Agency will continue to apply.
10. How would the system work for issues from stock?	Current procedures will be used. Customers will submit requisitions to OL for items required.	Amounts will be picked up in the FPA records of the Agency and records on accountability maintained under Type I procedures.
11. What steps would have to be taken to implement the proposal?	The proposal represents a major change in the Agency's approach to financial management of stock assets. This will require careful development of new techniques and methods and clear definition of authorities and responsibilities.	Type I procedures enable identification of costs of issue by user. However, records on user costs will no longer carry the budgetary connotation of a fund charge. Instead information will be accumulated for statistical purposes only. Therefore, customer will not be required to record requisition as an encumbrance nor to accumulate encumbrance amounts.
12. Do we need a policy criteria for stockage?	Yes. The first step in the budgetary process is definition of the subject. OL should develop a criteria for stockage. Complementing this definition would be criteria for direct procurement for which users have budgetary responsibility.	Development of implementation plans will have to take cognizance of and be in concert with procedural and organizational changes now being effected in the supply and procurement systems.
13. Can we consider the Agency's stock program as an indivisible entity?	No. Maintenance of stocks must be for support of current and future customer requirements. The Agency's programs are not homogenous. Material support requirements of the NPIC program, for example, are quite different from that of the DD/O's [] Station. These differing requirements must be accorded individual treatment.	Stockage of material must be in response to specific conditions such as timing, availability, etc., against which are balanced costs (items and overhead), risks, etc. Types of conditions represented by current stocks are: (1) Agency unique material, such as OTS and agent commo material; (2) paramilitary and related strategic reserves; (3) long-lead time items; (4) customer demand rates.

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QUESTION	ANSWER	COMMENT
14. Should OL be assigned budgetary responsibility for all stock procurement?	No. To the extent that stockage requirements can be related to specific programs and operating officials, the authorities and responsibilities for budgeting, which is a command function, should be so assigned. OL's budgetary authority and responsibilities should be limited to cross-Directorate, general stocks.	Mr. Colby's approval of 26 July 1972 assigned budgetary responsibility for OTS and agent commo cognizant stocks to OTS and OC respectively. A significant portion of stocks are held for OC staff communications requirements. Budgetary responsibility for all stock items maintained exclusively for staff communications should be assigned to OC. A sizeable portion of stocks held by the Agency are for paramilitary requirements. This includes <input type="checkbox"/> allocations as well as stocks under OL cognizance at <input type="checkbox"/> . Budgetary responsibility for all stocks items maintained exclusively in support of DD/O's paramilitary program should be assigned to DD/O. The results of requirements categorization suggested in 13 above should be used as the basis for other individual assignments. OTS is the only office which has prepared an inventory budget to date. Using this as a take-off point, a standard presentation format can be developed. A critical point in the proposal is development of customer requirements. A procedure will have to be developed to ensure that the budgeting officer has available validated requirements on which to develop procurement requirements. This procedure would also include provision for information to monitor actual demands on the stock procurement budget and on the levels of stock consumed. Inventory budgeting must be supported by reports on what is actually occurring in the stock position. This would include information on accessions (e.g. purchase, donations, pricing), disposals (e.g. customer issue, sale, donations, excess, obsolescence). A compatible reporting system on inventory management is mandatory to success of inventory budgeting.
15. In what form would the budget be prepared and executed?	The Agency will have to develop a standard formula and procedure for inventory budgeting and control.	
16. Would any changes in the current FPA system be required with adoption of the proposal?	Although no change is contemplated in the FPA procedures, additional reporting requirements will have to be levied on the system to meet the financial management needs for inventory budgeting.	

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QUESTION	ANSWER	COMMENT
17. Would adoption of the proposal vitiate the authorities and responsibilities of the D/L for the logistics system?	On the contrary. Implementation of the proposal should strengthen his role. Development and execution of the Agency's inventory budget will require participation by the D/L. The inventory budget will focus on an area of vital concern to D/L in both the supply and procurement functions and will provide an overview with a scope and timing available under the current system only in fragmented bits and pieces.	<p>Mr. Colby's memorandum of 5 November 1973, subject: Agency Organization, underscores the Agency-wide role of the DD/M&S office heads. Mr. Colby states: The Office Directors in the DDMA&S have a staff responsibility to the Director for their particular fields Each . . . has the obligation to provide policy guidance and assistance in the management of those resources on behalf of the Director to the managers who have the responsibility for their use."</p> <p>The proposal for inventory budgeting offers the means whereby the D/L can better meet the expectations of the Director. Participation, as a technical advisor, in initial estimates will provide information on what will be required of the supply and procurement systems and organizations to support these material requirements. Current reporting will enable day-to-day management decisions framed within the total system.</p> <p>Implementation plans should be made with the management requirements of the D/L incorporated as an integral element.</p>
18. What other advantages would accrue to the Agency with adoption of the proposal?	<p>A. Recognize inventory budget as a legitimate line item in the Agency's budget.</p> <p>B. Consolidate budget responsibility and authority under a single individual.</p> <p>C. Result in more accurate budgetary and financial information in the accounts of the Agency.</p>	<p>Accommodation of the difference between actual requirements for the appropriated dollar in contrast with the quasi-procurement budget under the PPA/FRA system will be provided for in the Agency's budget without the need to resort to declaration of need for "reprogramming" or declaration of "savings".</p> <p>The present system creates a dichotomy. Procurement allottee has the responsibility; user (customer) has the authority.</p> <p>Although the appropriation supports obligation of funds, the Agency budget has substituted use statistics (i.e. PRA encumbrances) in its budgetary accounts. On many occasions this has resulted in inaccurate statement of program obligations.</p>

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QUESTION	ANSWER	COMMENT
	D. Enable better utilization of funds appropriated to the Agency.	Fragmentation of appropriation authorities tends to create a higher percentage rate in unobligated balances. Elimination of separate fund and PRA authorities to operating components will tend to result in better use of funds. Historically, also, there has remained a significant unobligated balance in the PPA.
	E. Utilization of the Agency's standard budgetary and financial accounting procedures and reports for property procurement.	The PRA system is unique and does not conform with the standard system controlling appropriated funds. Although the operating official who is authorized PRA must consider it having the same force and effect as as funds allotment, he does not get reports on his PRA as part of his budget. (Single exception is Program Trend report where computer programmed to include some PRA information in total reports.) Encumbrance records must be maintained manually (as 1950). No requirements exist for reporting or accumulating PRA encumbrances by object or subobject class (a significant omission since financial management of 2600--supplies--and 3100--equipment--require different considerations.) Present efforts by both OF and OL in the MAPS program are being expended to accommodate this idiosyncrasy. Direct budgeting and funding for material would solve all these problems.
	F. Reduce workload and reporting requirements of PPA system by eliminating need to "wash"	Analysis under 4. above indicates 69% of PPA are direct procurement funds. Comparable workload relationship probably exists.
	G. Better control and utilization of material.	Presently offices are reluctant to return items to stock since they have to "pay" a second time if they need the item again. Since the budget would be charged only once, at the time of procurement, neither use nor reuse would create an appropriation charge. The proposal would encourage operating components to return unneeded property which would be available for reissue to other customers.
19. Are there disadvantages to the system?	Yes. The system will require a higher degree of planning and control which may inhibit the "flexibility" enjoyed in the past.	The "program" budget does not place much emphasis on the nature or object of the funds requirements. Therefore, inaccurate estimates or changing requirements for material support could be accommodated rather easily and without the need for justification or reprogramming action.

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QUESTION	ANSWER	COMMENT
20. When could the proposal be implemented?	A change in budget responsibility is best effected at the beginning of a fiscal year. Although the proposal possibly could be implemented effective with fiscal year 1975 (1 July 1974), it is recommended that implementation be targeted for fiscal year 1976.	<p>Since the proposal contemplates a rather significant change which will affect all components of the Agency, it is suggested that ample time be allowed thoroughly and carefully to work out procedures and ground rules. We must have clear definition of budgetary responsibilities and of identification between direct and stock items. This is required to preclude double budgeting for items and to ensure that all requirements are covered. Since BPA's are just being introduced and requirements contracts not yet in existence, we should take time to assess the actual impact on the supply and procurement systems.</p> <p>It is suggested that if the proposal is accepted in principle, the accounting FAN structure within the BPA for FY 1975 be established in consonance with the BPA stock groupings as the basis for establishing a solid base of at least one year for implementation of inventory budgeting in FY 1976.</p>